Nothing is as it seems

By Meghan Sapp

If you're not in Dubai in February, you don't know what's going on.

If anything can be gleamed from the Dubai Sugar Summit held this week, it's that nothing is as it seems. Whereas last year's conference had a very bullish feel to it, this year the consensus was neutral. But to call it neutral would be naïve. Everything is, instead, upside down and inside out so it's impossible to know which way is up, when the bulls will run or the bears will take over.

One must look behind the curtain. And there lies another curtain. And another, and another. Peeling them back requires pragmatism, a clear head and a bit of luck.

For India, nearly everyone in Dubai seemed to believe that sugar production will reach or surpass 28 million metric tonnes but officials aren't allowed to say anything much above 26 million tonnes. An extra, unaccounted for two million tonnes will weigh down the domestic market or will be subsidised heavily to compete on the international market, on top of the one million that will need to be exported anyway—at a time when the country wants 10% ethanol blending and eventually 22% but doesn't have the feedstock to do it.

Then there's their neighbour Pakistan who also needs to offload two million tonnes, but rather than converting that surplus into industrial ethanol for export to Europe that already do so successfully, mills are looking for the US$104/tonne subsidy to line their pockets. Everyone seems to know it's a corruption scam but it's how things are done so they'll keep doing it. India doesn't want to suffer the consequences so they've doubled the import tariff to 100%. But will that keep Pakistan and everyone else out at a time when world market prices are still much lower than India's domestic prices?

From the Brazilian side, they see the light at the end of the tunnel thanks to RenovaBio, but with so much investment required to bring mills back up to scratch and get cane fields back in order—after so many years of neglect at a time when prices in real terms are the lowest in Brazil since 2008—it's going to be a hard uphill battle to make it work. Internally, even with existing demand it's not able to sort itself out. Due to lack of demand management and infrastructure availability, it imported 3 million tonnes of sugar equivalent in the form of corn-based ethanol from the US last year, and it's on track to do something similar this year. If Brazil had produced 33 million tonnes of sugar rather than 36 million tonnes by boosting ethanol production last year, the global market would look much different than it does today.

Europe remains the big question mark. The European Commission expects EU countries to export 3.5 million tonnes this season and they've already shipped out 1.1 million tonnes through December but, in this game, the one with access to the cheapest money wins. Should the EU decide to store a million tonnes thanks to cheap interest rates and dribble that surplus sugar onto the market, it could make a huge impact. Many in Dubai believed exports will start slowing down, waiting until the new crop starts coming out of the ground in September and then offload whatever they've held over until then.

What's clear is that the Dubai Sugar Summit gives the first glimpse of the year into what's going on in the market. What's unclear is what anyone is going to do with what they found out.